



EFFECTS OF STRATEGIC PRODUCT INNOVATION ON SUSTAINABLE COMPETITIVE ADVANTAGE OF ALCOHOLIC BEVERAGE INDUSTRY: A CASE OF KEROCHE BREWERIES COMPANY LIMITED; KENYA

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ABSTRACT

Globally, strategic management is vital for attainment of organization's goals and objectives; hence it involves continuous planning, monitoring, analysis and assessment of all activities that makes an organization succeed competitively. This study had the strength of relying on literature of strategic innovations and sustainable competitive advantage. General impression of this study was on how firms can employ strategic innovations for competitive advantage in their respective industries. The study focused on the literature review of the companies' strategic plans and performance reports related to competitive advantage. Specific objective was to examine the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry. The study focused on Keroche Breweries Company Limited. This study used a descriptive survey research design anchored on pragmatism philosophy on a population target of Keroche Breweries Company Limited officers. Data collection was done through structured questionnaires. Stratified sampling technique was applied on the concerned population of the study. Analysis of data of the study was done by use of Statistical Package for Social Sciences (SPSS 24) for solving concerned information of descriptive and inferential content. The study based on descriptive statistics computation of frequencies, percentages and means, while for inferential Statistics, the similar statistical package was used to determine correlation and regression analysis. The conclusion of the study was; Strategic product Innovation had a significant effect on Sustainable Competitive Advantage of Alcoholic beverage industry. This study recommended of strengthening of strategic Production Innovation practices in Keroche Breweries Company Limited to gain competitive advantage within its industrial production. On scholarly perception, the study recommended for further research on the same variables using different method.

Key words; Strategic Production Innovation, Sustainable Competitive Advantage

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INTRODUCTION

Globally, for organizations to realize growth and make profits, essential requirements such as innovation should be put in place. According to Thompson (2007), innovation is usually a survival technique especially for organizations operating in the private sector in markets which tend to be competitive in nature. The ability for organizations to innovate is considered to be the most important factor in supporting and developing competitive advantage (Tidd, 2011). According to Davila, Epstein and Shelton (2009), innovation is a necessary ingredient for sustained success and is an integral part of the business. Much weight has been accorded on building innovative institutions and the management of the innovation progression as necessary elements of institutional survival. The performance of the firm is one of the indicators that determine environmental accountability (productivity, waste reduction, regulatory compliance and cycle time) and standards of efficiency and effectiveness.

Customer satisfaction, high performance in the organization and increased competitiveness with rivaling businesses are as a result of putting in place competitive strategies in an organization. Any organization which is willing to compete in competitive markets with dynamic technology must be ready and willing to innovate to make things happen. Unless the organization innovates, the risk of being overtaken by competitors is high. There comes at times when a business looks down on the challenges it faces in the competitive world. This happens mostly when rivals deal with challenges in the similar manner. Because most companies producing alcohol and beverages provide same services and products, they strive to look for competitive gap that will be aimed at attracting new customers, while at the same time retaining existing ones.

According to Brown (1997), emphasis has been centered on coming up with organizations which are innovative and the management of this

innovation process. These have proved to be the basic elements that make organizations to survive.

Depending on the effects and nature of the change, innovation can be radical, transformational or even incremental. Afuah (1998) suggests that innovations do not have to be breakthroughs or paradigm shifting; innovativeness refers to a willingness to support creativity and experimentation in introducing new products, becoming technological leaders, and developing new processes. The creation of new ideas and knowledge to aid the outcomes of the businesses is what defines innovation. The main reason as to why organizations create new ideas is the need to create market-driven products and services, and to improve internal business structures and processes.

As evidenced by the resource-based approach, organizations compete depending on their different capabilities. Strategies to cope with a changing competitive environment are associated with the firm's capabilities. Rumelt (1984) argue that the resource-based theory postulates that competitive advantages lie in the specific resources owned by the organization in a heterogeneous setting. The ability to innovate is increasingly viewed as the single most important factor in developing and sustaining competitive advantage. It is no longer adequate to do things better, it is about doing new and better things (Slater & Narver, 1995).

Porter (1980) describes competitive strategy as a search for a favorable competitive position in an industry. Competitive strategy originates from one's ability to understand the environment in which the business operates the analysis of micro and macro environments, accuracy in matching of the resources of the organization and other attractiveness factors. There is a need to regularly review competitive strategies in order to cope up with the dynamic business structure and environment. Russel and Taylor (2003) writes that these strategies are centered around positioning the products of the firms in the market. The strategies highlight how the organizations will compete their rivals in the market place and the

value it will add to the customer's needs, putting in place that for the positioning to be effective, position of the competitors, strengths and weaknesses of the firm and the market needs should be put into consideration.

According to Thomson and Strickland (2002), strategies comprise of those moves and approaches that a firm has to take and is undertaking to retain, attract customers withstanding competitive pressure, improved its market position and achieved competitive advantage from the way they organize and undertake their activities. The strategies concern the organization's specific game plan for securing competitive advantage and competing successfully with rivaling firms through meeting the needs and preferences of the buyers and better performance (Thomas, Strickland & Gamble, 2007).

Porter (1985) argues that organizations can make use of focus strategies, differentiation and cost leadership. While focus strategies aim at differentiation or cost advantage in a narrow segment, differentiation and cost leadership seek competitive advantage in a wide range of the organization's segments. Thompson, Strickland and Gamble (2007) highlights five competitive strategies that are generic in nature; low cost provider, strategy, abroad differentiation strategy, a low-cost provider strategy, a focused strategy based on low costs and a focused strategy based on differentiation a slight variation of Porters generic strategies.

For organizations to make their implementations effective, it depends on how they adapt to the already existing competitive strategies, for example vertical integration, Mergers and Acquisitions, offensive strategies, outsourcing strategies, strategic alliances and defensive strategies. According to Gebauer, Worch and Truffer (2012), as well Schlegelmilch, Diamantopoulos and Kreuz (2013), Strategic innovation is about creation of new markets and leaps in customer value and reshaping the existing markets to achieve value improvements for customers. The main aim of

strategic innovation is to achieve competitive advantage by creating value and new markets. There is however a bone of contention between the two extremes; creating customer value on existing markets or for new markets. Scholars agree that; strategic innovation is found at the re-definition of the business model of an organization; however, the question between the two extremes of strategic innovation lies therefore in how organizations redefine their business model and how organizations link the redefinition to the strategic literature.

Statement of the Problem

Current economic recess being experienced in Kenya as a result of the unstable economical conditions, there is needed to look at how innovative strategies could help to improve on such an economic recess. The management could be compelled to understand the forces that shape the industry competition. According to Rycroft and Kash (2009), firms need to be compelled to engage on strategic innovations while considering individual firms' inputs and outputs with their respective prices. Aside from improving the mix of target markets, strategic product innovation is concerned with how the chosen markets can best be served with the product (Kim & Mauborgne, 2009). In Kenya, the alcoholic beverage industry had rapidly been expanding and fierce competition was witnessed in the sector. Liberalization of the alcoholic beverage sector by the Kenyan government has seen many new entrants enter the market, challenging the already established players like Keroche Breweries Company Limited. In order to remain competitive, Keroche Breweries Company Limited has been forced to come up with new designs and achievable strategic plans, just like its competitors to have a stake in the lucrative market that has great potential of growth.

In as much as the alcoholic beverage industry showed some marked improvement, the recent economic recess that stemmed from political instabilities have affected the operations of most alcoholic beverage manufacturers. With the new

economic challenges affecting the brewing industry, it was important to look at the effect of strategic Product Innovation on sustainable competitive advantage of alcoholic beverage industry.

Objective of the Study

The objective of the study was to examine the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry.

Research Hypothesis

H₀₁: Strategic product innovation does not have a significant effect on sustainable competitive advantage of alcoholic beverage industry

LITERATURE REVIEW

This chapter presented a review of relevant literature on effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry. Relevant theories and information on these skills from other researchers and scholars who have conducted studies in this field were reviewed. This study based on the following theories;

Resource Based Theory

This theory emphasizes that a firm puts into use its capabilities and resources to create a competitive advantage that results into creating a superior value chain. It draws attention to the firm's internal environment as a driver for competitive advantage. Barney (1991) suggests that a firm's resources must be imperfectly imitable, valuable, rare and non-substitutable. This makes it to be a source of a sustained competitive advantage. He argued that only resources that are useful and strategically important should be considered as sources of competitive advantage. According to the Resource Based View (RBV), the basis for the competitive advantage of a firm lies in the application of valuable tangible or intangible resources at the firm's disposal.

Resources that are diverse in nature are the ones needed for transforming a short run competitive advantage to a sustainable competitive advantage.

According to Hoopes, Madsen and Walker (2003), resources need to be rare to be able to function as a possible source of a sustained competitive advantage. Hitt *et al.*, (1997) argues that organizations create a healthy competitive advantage every time customers consistently perceive positive differences such as cost competitiveness, quality and uniqueness value between the products and services offered by both the company and its competitors. It has been argued that RBV only focuses on internal resources, while ignoring the nature of the market demand (Hooley et al. 1996). The ability of a firm to make profits and be successful depends on its attractiveness, its location and whether it has competitive advantage over its competitors. For firms to sustain competitive advantage in the face of dynamic changes and competition there is need for them to constantly develop their resource basis.

Healthy competitive advantage not only helps the organization to achieve its strategic goals, but has a reasonable lasting effect. In order for competitive advantage to be sustainable, it needs to be embedded in the organization resources, culture, skills and investment over a period of time (Porter, 1998). Managers are tasked with making an overall assessment of the organization resource base and come up with viable strategic decisions that will enable the company to survive competition from its competitors.

Knowledge Based View

This theory considers knowledge as the most strategically important resource of an organization. According to Matusik and Hill, (1998), the relationship between organizational knowledge and the firm's competitive advantage is influenced by its capacity to integrate and apply knowledge. This knowledge is transmitted through various aspects including organizational culture and beliefs, employees, policies and documents. According to Zack (2002), "the sustainability of the knowledge-based competitive advantage depends on knowing better certain aspects than the competitors, along with the time limitations competitors have to

acquire similar knowledge despite the amount of money they are willing to invest to achieve it. Organizational learning plays a pivotal role in sustainability of the competitive advantage knowledge-based view of the firm. The role of human capital in the global knowledge-based competition has become extremely essential. Individuals are now owners and controllers of knowledge, as opposed to sometimes back when they were mere elements of a system of production. Although the resource-based view of a firm recognizes the important role of knowledge in firms that achieve sustainable competitiveness, it treats knowledge as a generic resource rather than one with special characteristics.

Dynamic Capability Theory

This theory defines dynamic capability in organizational theory as the ability of an organization to fully adapt to changes that have an impact on its functioning. Teece *et al.*, (1997) defines dynamic capability as the firm's ability to

integrate, build, and reconfigure internal and external competences to address rapidly changing environments. He further adds that the term dynamic refers to the capacity to renew competences in order to achieve congruence with the ever-changing business environment. It is the capacities and capabilities that lead to superior sustained performances because of the fact that they are specific to each organization, non-substitutable, valuable to the clients and hard to imitate. Porter (1985) argues that the basis of gaining a sustainable competitive edge is on competencies and capabilities critical to market success and satisfying customers. The Dynamic Capability Theory gives the managers a wide range of options on how they can change their old models in order to adapt to the changes in the environment. The term capability emphasizes the key role of strategic management in appropriately adapting and integrating both the internal and external organizational skills.

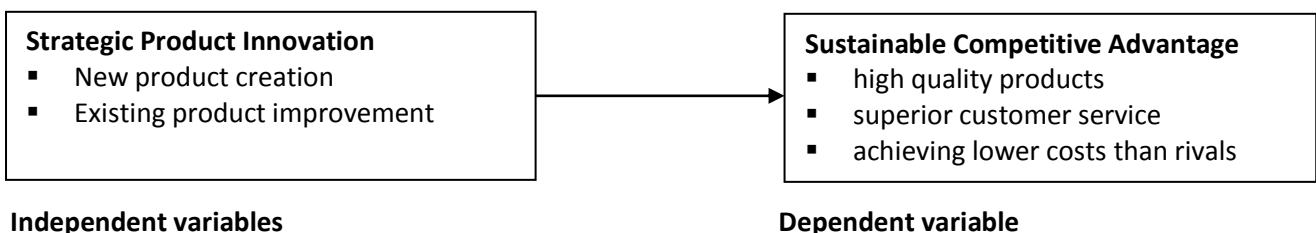


Figure 1: Conceptual Framework

Source: Author

METHODOLOGY

This study used a descriptive research design, which helped to clearly depict the current business climate in its natural setup (Burns & Grove, 2003). This enabled the study to clearly depict the effects of strategic innovation on sustainable competitive advantage on alcoholic beverage industry. The population encompassed senior staff from the Sales, Marketing, Production, Finance, and IT departments. 274 senior staff from these departments at Keroche Breweries Company Limited was used (Keroche, 2020). The main sampling techniques selected for this study was stratified sampling. The sample frame used

consisted of all employees of Keroche Breweries Company Limited, since they gave a better representation and depiction of the overall organizational point of view. The study used questionnaire to collect data. This study measured the validity of the instrument using content and factorial validity. The researcher ascertained the validity and reliability by administered the questionnaire to 7 staff members at EABL Kisumu because they represented 10% of the sample population as proposed by Mugenda and Mugenda (2009). Due to the quantitative nature of the data, statistical analysis was used. Thus, the raw data obtained was first filtered and indexed, the

questionnaire items were then coded into the SPSS and then coded into the program. Standard deviation was used to analyze the descriptive data whereas regression analysis was used to test the strength and direction of both the independent and dependent variables. This was later used to develop the multiple linear regressions showing the effect of strategic innovation on sustainable competitive advantage in alcoholic beverage industry.

The equation was represented as:

$$Y = \alpha + \beta_1 X_1 + \varepsilon$$

y = sustainable competitive advantage.

α = the constant of the equation or the y intercept.

β_1 = the slope of the regression line.

X_1 = strategic product innovation.

e = the error factor.

RESULTS AND DISCUSSIONS

The researcher distributed 71 questionnaires to the respondents, out of which 60 were returned as shown in table 1. The response rate was 84.50%. Cooper and Schindler (2003) argue that a response rate exceeding 30% of the total sample size provides enough data that can be used to generalize the characteristics of a study problem as expressed by the opinions of few respondents in the target population. Based on these assertions the response rate of 84.50% was adequate for the study.

Table 1: Response Rate of Cashless Revenue Remitters/ Customers

Response	Frequency	Percent
Returned	60	84.50%
Unreturned	11	15.50%
Total	71	100%

Test for Reliability for the Questionnaire

The reliability of an instrument refers to its ability to produce consistent and stable measurements. According to Cooper and Schindler (2011) reliability tests the stability, equivalence and internal consistency of an instrument. The most common reliability coefficient is Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test- internal coherence of data. The reliability is expressed as a coefficient between 0.00 and 1.00. The higher the coefficient, the more reliable is the test.

In this study, data collection instrument which was a questionnaire was tested on 10% of the sample to ensure that it was relevant and effective. Reliability was tested using questionnaire duly completed by 7 staff at EABL Kisumu. These respondents were not

included in the final study sample in order to control for response biasness. The questionnaire responses were input into statistical package for social sciences (SPSS) and Cronbach's alpha coefficient generated to assess reliability. The Cronbach alpha was calculated in a bid to measure the reliability of the questionnaire. Results were presented in Table 2.

From the findings, all the statements were reliable since the Cronbach alpha was above 0.7 which was used as a cut-off of reliability for the study. Therefore, the internal consistency reliability of the measure was excellent. This indicated that the data was reliable since an alpha coefficient higher than 0.70 signifying that the gathered data had a relatively high internal consistency and could be generalized to reflect the respondent's opinions on the study problem.

Table 2: Reliability Coefficient

Variable	Cronbach's Alpha	Comment
Sustainable competitive advantage	0.853	Accepted
Strategic product innovation	0.859	Accepted

The Cronbach Alpha is a value widely used to verify reliability. The findings indicated that Sustainable competitive advantage had a coefficient of 0.853; Strategic product innovation had a coefficient of 0.859, which was above the recommended threshold. All variables depicted that the value of Cronbach's Alpha is above value of 0.7 thus the data collection instrument was reliable (Castillio & Rojas, 2009).

Test for Validity for the Questionnaire

Kaiser-Meyer-Olkin (KMO) test was performed to test for validity. Interpretive adjectives for the KMO Measure of Sampling Adequacy are: in the 0.90 as marvelous, in the 0.80's as meritorious, in the 0.70's as middling, in the 0.60's as mediocre, in the 0.50's as miserable, and below 0.50 as unacceptable. The value of the KMO Measure of Sampling Adequacy for this set of variables was 0.771, which would be labeled as 'middling'. Since the KMO Measure of Sampling Adequacy met the minimum criteria, the instrument was valid.

Descriptive Statistics;

Sustainable Competitive Advantage

Respondents were requested to indicate their level of agreement on sustainable competitive advantage. 59.70% of the respondents agreed that Keroche produces high quality beer. If asked whether Keroche produces high quality spirits, 91.00% agreed that Keroche produces high quality spirits. This shows how competitive the company is. The results further revealed that 92.40% agreed that they have increased their market share. When asked to state whether their customers are satisfied by their products, 50.00% of the respondents agreed that their customers are satisfied by their products. Further, the results revealed that 86.72% disagreed that their costs of production are low. The results also revealed that 81.30% of the respondents agreed that their costs of maintenance were low.

The findings were also similar to Kangal, (2015) which shows that innovations use assets and competencies of the organization along with

innovation processes to bring about new or different market offerings, which when successful in the market bring in immense value to the firm and give the firm an edge over its rivals. This agrees with the views of Noorani (2014) which states that investing in the development of both physical and non-physical components of products and services available for sale could lead to enhanced business prospects, ultimately ensuring success. Jagdev and his colleagues (2002) further reveal that increased market share is a reflection of the sustainable competitive advantage created by the innovated product and this protects the organizations market share from products created and launched by rival companies.

Hoang (2010), further sheds light on this in his study when he states the firm must always seek to clearly cement the superiority of its products in the mind of its customers. The success of the newly launched product lines seemed to decline as the market competition increased since consumers begun to have trouble in differentiating the products in the niche.

Strategic Product Innovation on Sustainable Competitive Advantage

Respondents were also asked to state how they perceived the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry. A majority of the respondents (67.30%) agreed that Keroche has produced new beer in the recent past. Results also indicated that 64.60% agreed that Keroche has produced new spirits in the recent past. Further, 70.00% of the respondents agreed that Keroche Breweriew Company Limited has recently improved on its beer flavours. Further, the results revealed that 81.40% agreed that Keroche Brew has recently improved on its spirits flavours. The results also revealed that 69.20% agreed that Keroche Breweries Company Limited has recently improved on the quality of its beer. In addition, the results revealed that 76.80% agreed that Keroche has recently improved on the quality of its spirits.

Results revealed that majority of the respondents (64.60%) agreed that Keroche Breweries Company Limited has a well-functioning website. The results also revealed that 84.70% agreed that Keroche Breweries Limited has been offering new services to its customers. Results also revealed that 50.50% of the respondents agreed that Keroche Breweries Company Limited has improved its services in terms of customer care. Further the results revealed that 72.20% of the respondents disagreed that the company has improved its services in terms of information visibility for example product prices. The results also revealed that 71.00% agreed that their customers get their orders within the shortest time after ordering. Lastly, 64.60% of the respondents agreed that orders can be paid for online and delivered to our customers all over the country.

Mahmod *et al.*, (2010) further emphasizes this in his study as he states the competitive position of a firm greatly depends on the firm's ability to adapt to the changing business markets thus service innovation is used to equip the firm with a competitive edge against it rivals in a specific industry as they try to both acquire and retain customers. In order for

Keroche to easily anticipate the changes in the highly unpredictable business environment, they created a stream of constant service innovations based on changing customer trends data. This made the organization more proactive rather than reactive to its environment. This validates Chen (2013) findings that firms can influence their consumer base through leveraging innovative service practices, which in turn gives the firm a competitive advantage. The competitive position of a firm greatly depends on the firm's ability to adapt to the changing business markets (Porter, 1985). Keroche Breweries Company Limited innovation in service practices enabled it to leverage the marketing concepts and research in order to influence the outcomes of novel products and innovation.

Correlation Analysis

Strategic Product Innovation and Sustainable Competitive Advantage

Correlation analysis was conducted between strategic product innovation (independent variable) and sustainable competitive advantage (dependent variable). Results were presented in Table 3.

Table 3: Correlation Matrix (strategic product innovation and sustainable competitive advantage)

		Sustainable competitive advantage	Strategic product innovation
Sustainable competitive advantage	Pearson Correlation	1.000	.317**
	Sig. (2-tailed)		0.000
Strategic product innovation	Pearson Correlation	.317**	1.000
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

Results in Table 3 indicated that there was a positive and a significant association between strategic product innovation and sustainable competitive advantage ($r=0.317$, $p=0.000$).

Regression Analysis;

Strategic Product Innovation on Sustainable Competitive Advantage

The results in table 4 presented the fitness of model

used of the regression model in explaining the study phenomena. Strategic product innovation was found to be satisfactory variable in explaining sustainable competitive advantage. This was supported by coefficient of determination also known as the R square of 10.1%. This means that strategic product innovation explains 10.1% of the variations in the dependent variable which is sustainable competitive advantage.

Table 4: Model Fitness

Variables	Values
R	0.317
R Square	0.101
Adjusted R Square	0.094
Std. Error of the Estimate	0.513

Table 5: Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4.178	1	4.178	15.906	0.000
Residual	37.299	143	0.263		
Total	41.478	144			

Table 5 provides the results on the analysis of the variance (ANOVA). The results indicated that the overall model was statistically significant. Further, the results implied that the independent variable was a good predictor of revenue optimization. This

was supported by an F statistic of 15.906 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. Regression of coefficient results was presented in Table 6.

Table 6: Regression of Coefficients

	B	Std. Error	T	Sig.
(Constant)	1.597	0.455	3.509	0.001
Strategic product innovation	0.468	0.117	3.988	0.000

Regression of coefficients showed that strategic product innovation and sustainable competitive advantage had a positive and significant relationship ($r=0.468$, $p=0.000$). These results supported Kangal (2015), who found a positive relationship between product innovation and sustainable competitive advantage.

$$Y = 1.597 + 0.468X_1$$

From the regression equation when strategic product innovation changes by 0.468% the competitive advantage change by 1% showing there is a positive relation between the two variables.

Hypotheses Testing

The hypotheses were tested using multiple regressions analysis. Table 7 showed multiple regression results. The results presented indicated that strategic product innovation, explained 85.72%

of the variances in sustainable competitive advantage as indicated by squared multiple correlation (R^2) of 0.8572. The results indicated that the overall model was statistically significant. Further, the results implied that strategic product Innovation, was supported by an F statistic of 378.25 and the reported p value 0.000 which was less than the conventional probability of 0.05 significant level.

Thus the specific model was restated;

$$\text{Sustainable competitive advantage} = 9.9819 + .000064X_1$$

Where;

X_1 = strategic product innovation

Table 6: Regression Analysis

	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]
strategic product innovation	.000064	.00000259	24.46	0.000	.000058 .000069
_cons	9.98919	0.77488	12.89	0.005	8.46459 11.51

R Squared=85.72
F(5,315)= 378.25
P= **0.000**

Hypothesis Testing

The hypothesis was tested by using multiple regression analysis. The acceptance/rejection criteria was that, if the p value is greater than 0.05, the H_{01} was not rejected but if it's less than 0.05, the H_{01} failed to be accepted. The null hypothesis was that strategic product innovation does not have a significant effect on sustainable competitive advantage of alcoholic beverage industry. Results showed that the p-value was 0.000 $p < 0.05$. This indicated that the null hypothesis was rejected hence there is a significant relationship between strategic product innovation and sustainable competitive advantage of alcoholic beverage industry.

CONCLUSIONS AND RECOMMENDATIONS

The objective of the study was to establish the effect of strategic product innovation on sustainable competitive advantage of alcoholic beverage industry. From the findings, strategic

product innovation affects sustainable competitive advantage of alcoholic beverage industry. The respondents felt that Keroche Breweries Company Limited produces high quality products.

From the study findings, it was concluded that strategic product innovation has a positive effect on sustainable competitive advantage. The use of innovative strategies by Keroche Breweries Company Limited had played a great role in ensuring sustainable competitiveness in the Alcohol and Beverage industry. Keroche Breweries Company Limited had both a good theoretical and practical understanding of the innovative strategies necessary to ensure it remains dominant in its industry. Therefore, new products are introduced to the market to acquire new customers whereas old products are modified from time to time in order to retain their customer base by adjusting to their newly developed needs and compete favorably in the market hence sustaining its competitive edge.

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